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UNCLAS SECTION 01 OF 02 THE HAGUE 000222

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STATE FOR EB/IFD/OMA (ABESMER)
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SUBJECT: DUTCH ON CLEARING LIBERIA'S ARREARS TO THE IFIS

REF: A. STATE 9925

¶B. THE HAGUE 70

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¶11. (U) This is an action request; please see para 7.

¶12. (SBU) SUMMARY. The Dutch agree that a multilateral solution is needed to address Liberia's arrears to the IFIs but also stress the need to guard against negatively impacting the financial integrity of all the IFIs. They worry that any exceptions made for Liberia will set a precedent for other countries. They seek further clarifications on the details for clearing Liberian arrears to the World Bank and African Development Bank before addressing arrears at the IMF. See request for further information. END SUMMARY.

ENSURING THE INTEGRITY OF ALL IFIS

¶13. (SBU) Econoffs discussed on February 1 ref A points and background with Dutch Finance Ministry officials Karen Rot, Senior Policy Advisor responsible for African Development Bank (AfDB) issues, and Martine Rutten, Policy Advisor responsible for World Bank issues, as well as Andre Westerink, Senior Policy Advisor in the UN and International Financial Institutions Department, Ministry of Foreign Affairs. These officials said the GONL shared USG interests in finding a multilateral and comprehensive solution to the problem of clearing Liberia's arrears to the International Financial Institutions (IFIs). Rutten said the GONL, however, was reluctant to consider a delinking of World Bank and AfDB arrears clearance processes with that of the IMF. She also questioned how such a delinking process would proceed. She and Rot questioned the implications of such a move on the Heavily Indebted Poor Countries (HIPC) fund, which they noted was already in deficit. They both stressed the need to ensure that any proposed solution did not

negatively impact the financial integrity of all the IFIs.

EXCEPTION FOR LIBERIA RISKS SETTING PRECEDENT

¶4. (SBU) These officials agreed that Liberia would benefit from increased engagement by the IFIs. They also acknowledged that Sudan and Somalia might not be ready and have the capacity for an arrears clearance exercise. However, Rot said the same arguments used to justify actions directed at Liberia could be applied to other African countries. Therefore, she argued, it was important to establish an overall framework for addressing arrears before moving forward with only one country. Introducing exceptions for Liberia also risked setting a precedent for future cases, she added. Rutten reiterated that the Netherlands had limited bilateral interests in Liberia and that the country was not on the GONL's official list of 43 development assistance partner countries (36 of which are in sub-Saharan Africa). See ref B for earlier reporting.

FURTHER CLARIFICATIONS NEEDED ON WB AND AFDB PROPOSALS

¶5. (SBU) Rot said the GONL sought further details on the World Bank proposal to use a grant from the International Development Association (IDA) to clear Liberia's arrears, including the handling of commercial credits. She also questioned whether the option of increased bilateral donor funds had been explored sufficiently.

¶6. (SBU) While still considered "exceptionally high," Rot said the GONL might agree to funding 50 percent of Liberia's

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arrears through the AfDB's Post-Conflict Country Facility (PCCF). Much would depend on the size of the gap left by any donor contribution shortfalls. She said a target of 70 percent was too high and also risked setting a precedent for other cases. Meanwhile, uncertainties remained about the contributions expected from donors under this plan and proposed timelines, she added.

ACTION REQUESTED: MORE INFORMATION NEEDED

¶7. (SBU) These officials thanked econoffs for the background information provided. They noted further information would be helpful on how the USG envisioned the proposed delinking process, the implications of such actions on the HIPC, and the handling of commercial credits under the World Bank proposal, especially as the GONL reviews its position on this issue. They also welcomed any information on future USG donor contributions to offset Liberia's arrears and any funding through the PCCF. Post would greatly appreciate any additional information Washington can provide.

ARNALL